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Briefing on the 2005 Index of Economic Freedom

BACKGROUND

The *2005 Index of Economic Freedom* is the eleventh edition of the report published by the Heritage Foundation and the Wall Street Journal. The report examines 161 countries and shows that those countries with the greatest degrees of economic freedom also have higher rates of long-term economic growth and enjoy the highest standards of living.

SUMMARY OF THE REPORT

The report defines economic freedom as

the absence of government coercion or constraint on the production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself. In other words, people are free to work, produce, consume, and invest in the ways they feel are most productive.

The *2005 Index of Economic Freedom* report covers 161 countries, including many USAID-assisted countries. Each country is measured against 50 independent variables that are divided into ten broad categories: trade policy, fiscal burden of the government, government intervention in the economy, monetary policy, capital flows and foreign investment, banking and finance, wages and prices, property rights, regulations, and informal market activity. Low scores are more desirable since they represent a low level of government interference in the economy and therefore a higher level of economic freedom. The best score possible on the scale is 1.0, the worst, 5.0.

In addition to a database of country scores and rankings, the report provides analysis of factors that affect the institutional setting of economic growth. This year's report examines global terrorism and the global economy, sets forth the benefits of a global free trade alliance, and critiques anti-dumping abuses and their effect on free trade. For each country, there is a two page summary that includes past and present scores and analysis of the countries progress in each of the ten categories.

MAIN FINDINGS

- In 2005, economic freedom advanced modestly across the world. Of the 155 countries for which a comparison with a previous score could be done, 86 countries scored better, 57 scored worse, and 12 are unchanged. Of the 155 countries:
 - 17 are classified as "free" (Score: 1-1.99)
 - 56 as "mostly free" (Score: 2-2.99)
 - 70 as "mostly unfree" (Score: 3-3.99)
 - 12 as "repressed" (Score: 4-5)

- Six countries were suspended from being scored due to questions about data accuracy: Angola, Burundi, the Democratic Republic of the Congo, Iraq, Sudan, and Serbia and Montenegro.
- The ten countries that improved their scores (i.e. reduced them) the most over the past year are Madagascar (reducing its score from 3.14 to 2.68 and vaulting from the “mostly unfree” category into the “mostly free” category by the report’s reckoning), Ukraine, Poland, Bulgaria, Iceland, Indonesia, Hungary, Malaysia, Mongolia, and Uzbekistan (reducing its score from 4.29 to 4.10 – still “repressed” but less so).
- The ten countries that experienced the greatest deterioration in their scores (i.e. increase) over the past year are Ethiopia, Pakistan, Uganda, Haiti, Bangladesh, Morocco, Qatar, Fiji, Cuba, and Tunisia.

REGIONAL FINDINGS

- North America - Europe continues to be the most economically free region in the world and has six of the world’s ten freest economies. In this region, 32 countries improved their score while only nine experienced a decline. The United States experienced a change in its relative position due to strong improvements in other top performers. While the U.S. score remained unchanged from 2004, it fell from the top ten for the first time and is now tied with Switzerland for 12th place.
- Latin America and the Caribbean remains basically unchanged, with 12 countries improving and 12 countries declining. Haiti, Cuba, and Venezuela are classified as "repressed". Chile (ranked 11th in the 2005 Index) is the only "free" country in the region.
- North Africa and the Middle East showed a net decline in 2005 with 4 countries improving and 11 countries declining. Bahrain and Israel, both categorized as "mostly free", are the regions freest economies. Libya and Iran remain "repressed".
- Sub-Saharan Africa continues to improve. Indeed, no other region has made greater strides in economic freedom, but the improvement has been from relatively low levels of economic freedom, and thus it remains the world's least economically free region. In 2005, 21 countries improved their score and 15 declined. Thirty of the 38 countries remain "mostly unfree". Zimbabwe is the least free country in the region and is classified as "repressed". Botswana is the freest economy in the region.
- Asia-Pacific showed a net improvement with 17 countries improving and 10 countries declining. Four of the world's ten freest economies are in this region: Hong Kong, Singapore, New Zealand, and Australia. However, most countries in this region are classified as "mostly unfree". The region has more "repressed" economies than any other region: North Korea, Tajikistan, Uzbekistan, Laos, Turkmenistan, and Burma (Myanmar).

HOW TO ACCESS THIS REPORT

The full *2005 Index of Economic Freedom* report can be accessed at:

<http://www.heritage.org/research/features/index/>